

1935

1935

38094/2

C0533/458
KENYA

38094/2

Reserve Funds:-

Investment Reserve Account.

Previous

See 38094/1/35
(Ply. Investment Res. Ac.
See 11723/1/35 Cont.

Subsequent

297	8/1/36
D.C.A.	14/1
297	22/1
M. Grant	24/1
297	

C.9. Financial
~~Account~~
~~the~~
~~Account~~
1.

Gov? Bygone - No. 503 - 23.9.35

Seeks approval for the creation of a special reserve account to which would be credited any sums derived in future from the appreciation of securities held on behalf of the Colony.

No 2
28094/35
sub 1

The procedure suggested in para 3 of the Dept's letter of 16 July which has been adopted by the Transport Administration, does not infringe Col. Regn. No. 275.

? If the D.C.A. agrees, the adoption of a similar procedure in the case of the Colony may be approved.

C. H. ...
30/10/35

[Signature]
31

Sir J. Harding

Any objection? (In Kenya they accused Govt of faking the accounts because they credited appreciation to revenue)

J.S.W. Ford
1-11.

No: 3575/22.

Mr. Flood,

Similar cases have so far been discussed and settled as follows:-

- (a) Nigeria transferred the balance remaining in the Investment Adjustment Account at 31.8.33 plus the appreciation of the investments at 31.3.34 to revenue in the 1933/34 accounts. They then charged expenditure

expenditure with a corresponding amount and created a Reserve Fund "Investments Appreciation Account" (see 21147/34 Nig.) The Secretary of State approved the charge to expenditure which appeared in the Schedule of Additional Provision, but informed the Governor, with reference to the item in the Schedule relating to the charge, that "the position of this and other similar funds is being considered generally and a further despatch on the subject will be addressed to you in due course". (Secretary of State's despatch No: 402 of 26.3.35).

21147/34/Nig.

(b) The Kenya-Uganda Railway asked (38094/35 Kenya) to be allowed to create a special reserve account for dealing with appreciation and depreciation of investments. Reference was made to the Nigeria case in the minutes relating to the K.U.R. case, and eventually the creation of such a reserve fund was approved, but it was to be done by crediting appreciation to revenue and then voting it out of expenditure to the reserve fund. It appears that approval was given largely because of the commercial nature of the K.U.R. accounting system.

(c) In July 1935 the Gold Coast (having previously been told to close an Investment (Reserve Fund) Adjustment Account which they had created from the appreciation of the Colony's Reserve Fund investments at 31.3.34 - see Secretary of State's despatch No. 207 of 26.3.35. No.2. in 21824/1934 Gold Coast, said that they were creating an Investment Depreciation Account by a charge to expenditure of the amount of the balance of the old Investment (Reserve Fund) Adjustment Account plus the appreciation at

31.3.35

No.3. in
21824/34 G.C.

No.4. in
21824/34.

No.7. in
21824/34 G.C.

31.3.35 (see despatch to Secretary of State No. 399 of 12.7.35). They were told that the adoption of such a course was to be deprecated (Secretary of State's Despatch No.679 of 2.9.35). Finally (in Secretary of State's despatch No.946 of 22.11.35) ~~Secretary of State's~~ the Secretary of State said that he had reached the conclusion that the Investment Depreciation Account should be cleared at the end of 1935/36 in the manner proposed by the Treasurer, i.e. by crediting or debiting any net balance in the account to Reserve.

2. So the situation seems to be that the K.U.R. have been allowed to create a Special reserve account for appreciation or depreciation on investments (and that this was largely because of their commercial accounting system,) and that neither Nigeria or Gold Coast have been authorized to set up such a special reserve. In fact the policy for a Colony in so far as it has been decided seems to be that there should not be a reserve earmarked for this particular object but that such fortuitous windfalls should, if they can be spared, be used to increase a General Reserve Fund.

A. J. Harding

Director of Colonial Audit.

6-12-35

General Dept.

You should see now. The D.C.A.'s views are set out above.

There are heretical and are that the practice in the Col. Regs. (crediting appreciation to Revenue and vice versa) is all wrong unless you call the stock, and thereby

get (or lose) some money. From the point of view of a statement of assets & liabilities it is right to show investments at current value on the day of account but the Revenue & Expenditure Account ought not to be troubled with fictions.

If you sell the stock it's quite another story. But I know I am not orthodox. One result of orthodoxy is that if trade & prosperity go up there will be a sudden huge paper 'expenditure' because all stocks will drop!

J. E. O. Hood
10.12.

Govt. /
As Mr. Hood said in June last on 38074/35 his fiscal practice is sounder than his view and it will be best to maintain that practice in the accounts of Kenya. I should like the Gov. that Mr. J. P. wd. be reluctant to agree to the extension to his Colony's accounts of his arrangement speedily approved for the U.K. mainly on the ground that the accounts of that operation are kept on a commercial system and had he would prefer the Govt. to maintain the practice of crediting to revenue any appreciation of its investments & charging any depreciation to expenditure.

J. P. V.
11.12.35

I agree. — mainly because I think we must preserve some uniformity of practice in the matter.

J. P. V. Verma 11/12

Sir C. B. Attenbury,
Sir J. Campbell,

Have you any observations?

J. P. V. 12/12/35

4
So the ~~main~~ ^{key} of the matter is in the final words of Sir J. Harding's minute. If Colonies could refrain from spending the unrestricted appropriation, & hold to general reserves, well & good. But many of them can't, and once the appropriation is made to be used as revenue.

I don't know if the matter is still waiting for reconsideration — as things are, I agree that exceptions, in the case of Govt. accounts, are undesirable.

C. C. S.
13.12.35

I have never liked the practice of taking appreciation or depreciation of securities to revenue or expenditure respectively; and agreed only because this course seemed to follow, logically and inevitably, from certain accepted principles which were at the base of the Colonial accounting system.

2. But I agree that, while the system seems to me undesirable, and open to certain very cogent practical objections, it is not desirable to alter it, ad hoc for this Colony or for that, so long as it stands as the accepted general principle. Uniformity is desirable.

The 13th: December, 1935.

As prepared by Mr. Lloyd

J. P. V. 16/12/35 + once

10/12/35

2 To Kenya 1025 (1 answer) 27 DEC 1935 ✓

See to see.

Milpaug to see
holiday

CP

W

Seen.

[Signature]
Deputy Director
of Colonial Audit.

17 JAN 1936

C. O.

Mr. Grossmith.

19/12

Mr. Flood

1935

Mr.

"D 27"

Downing Street,

27 December, 1935.

Sir C. Parkinson.

Sir G. Tomlinson.

Sir C. Bottomley.

Sir J. Shuckburgh

Permt. U.S. of S.

Parly. U.S. of S.

Secretary of State.

Sir,

I have etc. to acknowledge

the receipt of your despatch No.503 of

the 23rd of September in which you

Suggested
stated that the procedure decided upon

as regards the annual adjustment of the

values of securities held by the

Transport Administration could, with

advantage, be adopted in the case of

the Colony's investments.

394

2. I note that the Treasurer and

the Auditor advise that the arguments

adduced in favour of the creation of a

Special Reserve Account for the

Transport Administration apply with

equal force to the Colony's Account.

I should inform you, however, that in

approving the procedure for the

Railway Administration my predecessor

was

DRAFT.

KENYA.

NO. 1025

GOVERNOR.

FURTHER ACTION.

was largely influenced by the fact that the
accounts of that Administration ^{are} ~~were~~ kept ^(largely) on
commercial ^{lines} system. ^{for that reason I} ~~in view of the existing~~

~~rule laid down in Colonial Regulation 275 F~~

should be reluctant to agree to the extension
to the Colony's Accounts of the arrangement
specially approved for the Transport Administration.

J. I should prefer your Govt. to maintain
the practice of crediting to revenue any
appreciation of its investments and charging
any depreciation to expenditure, and I may add

~~I have, etc.~~

that, where a similar question has been raised in
other Colonies a similar decision has been given.
It is very desirable to ~~secure~~ ^{maintain} a uniform practice
in Colonial Govt. Accounts and, for that reason
alone, I should deprecate any alteration.

(Signed) J. H. THOMAS

KENYA.

No. 503



GOVERNMENT HOUSE,
NAIROBI,
KENYA.

September, 1935.

RECEIVED 23
21 OCT 1935
O. O. REGY

Sir,

With reference to Lord Plymouth's despatch No. 108 of the 12th February, 1934, on the subject of the application of Colonial Regulation No. 291 (No. 275 in the 1935 Edition) to certain Government securities, I have the honour to observe that in your despatch Transport Kenya-Uganda No. 55 of the 18th July, 1935, addressed to me as High Commissioner for Transport, you approved the creation of a special reserve account, to which any future sums derived from the appreciation of securities held by the Kenya & Uganda Railways and Harbours Administration should be credited, and considered that Colonial Regulation No. 275 would not be infringed by the procedure suggested in your despatch.

2. I am advised by the Treasurer and the Auditor that the arguments adduced in favour of the creation of a special reserve account for the Railway Administration apply with equal force to the Colony's account. I shall therefore be glad to learn whether you would be prepared to approve the creation of a special account, to which would be credited any sums derived in future from the appreciation of securities held on behalf of the Colony and which would be operated under procedure similar to that suggested in your Transport despatch under reference.

I have the honour to be,

Sir,

Your most obedient, humble servant,

H. G. G. G.
BRIGADIER-GENERAL.
GOVERNOR.

THE RT. HON.
MALCOLM MACDONALD, P.C., M.P.,
Secretary of State for
the Colonies,
Downing Street, LONDON.
S.W.1.

5
11/7/23/1/10
Seal.

2/38094/25
Sub. file

inward (2)

KENYA.

No. 503



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1
GOVERNMENT HOUSE,
NAIROBI,
KENYA.
September, 1935.

RECEIVED 23

27 OCT 1935

O. O. REGY

Sir,

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2/11/23/1/20
Sial.

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Sial.

inward (2)

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I have the honour to be,

Sir,

Your most obedient, humble servant,

H. J. Jones
BRIGADIER-GENERAL.

G O V E R N O R .

THE RT. HON.
MALCOLM MACDONALD, P.C., M.P.,
Secretary of State for
the Colonies,
Downing Street, LONDON.
S.W.1.